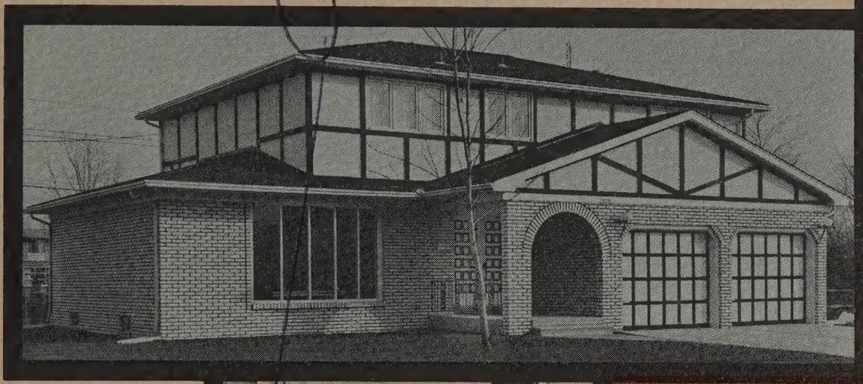
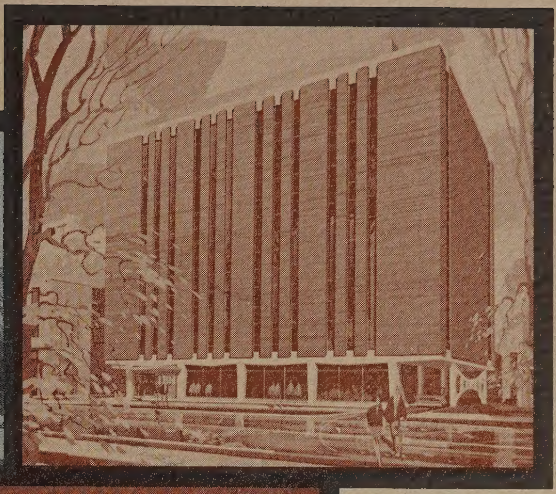
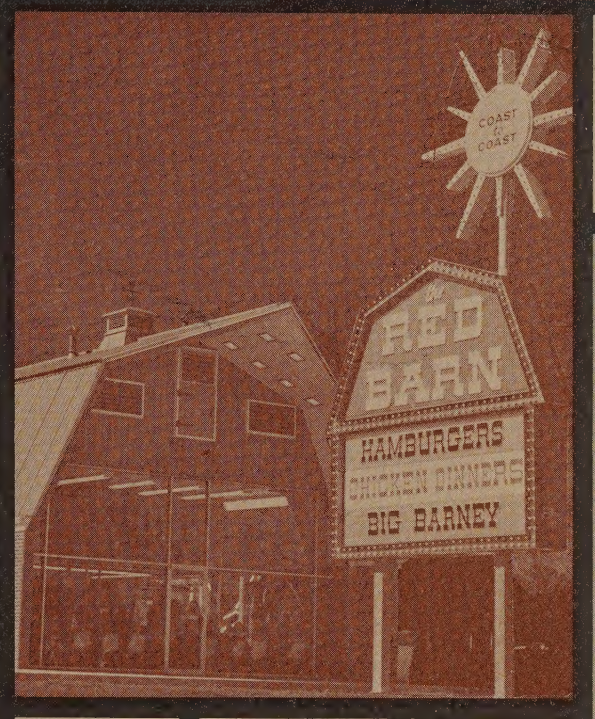
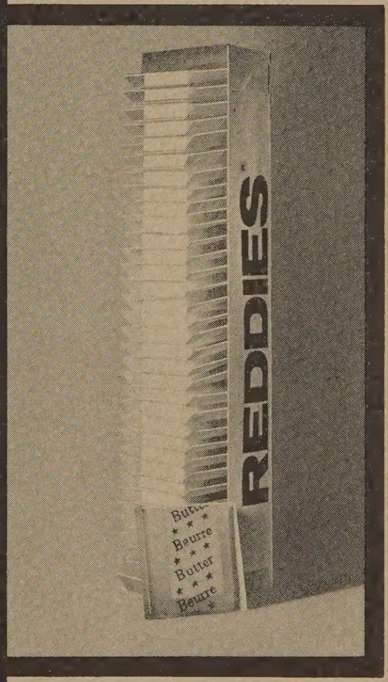
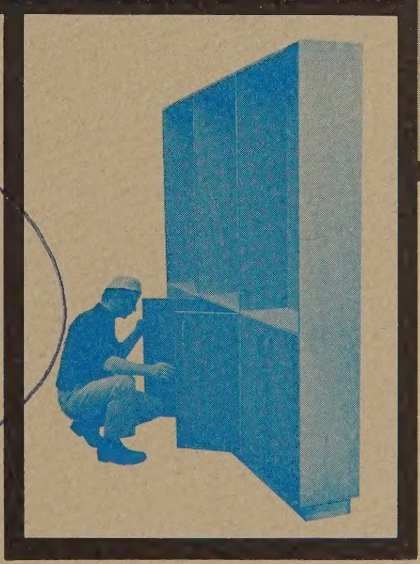








CAPITAL
BUILDING INDUSTRIES LIMITED



ANNUAL REPORT 1968

CAPITAL BUILDING INDUSTRIES LIMITED

REGISTRAR AND TRANSFER AGENT Shares — The Royal Trust Company

AUDITORS — McDonald, Currie & Co. Ltd., London, Ontario

LISTED ON — Toronto Stock Exchange, Canadian Stock Exchange

HEAD OFFICE — London, Ontario

DIVISIONS

Construction Division
Capital Quality Homes — Windsor

Business Development Division

Manufacturing Division
Essex Cabinet Makers (Ontario) Limited — Ottawa

Frontier Acceptance Division
Frontier Acceptance Corporation Limited

Red Barn Division
Red Barn System (Canada) Limited

J-L Vitamins & Cosmetics Division
J-L Vitamins & Cosmetics Limited

Middlesex Reddies Division
Middlesex Reddies Limited
Middlesex Creamery Limited

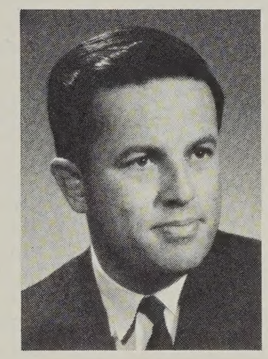
CONTENTS

1968 ANNUAL REPORT
CAPITAL BUILDING INDUSTRIES LIMITED

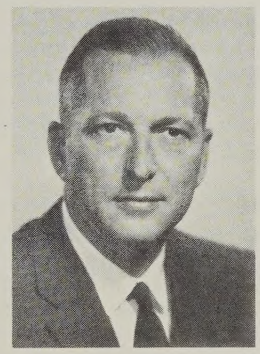
DIRECTORS AND OFFICERS

D. H. SWIFT
President and Chief Executive Officer

W. G. DINGWALL
Director and Chairman, Executive Committee

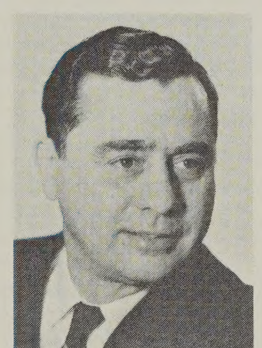


J. W. ADAMS
Director

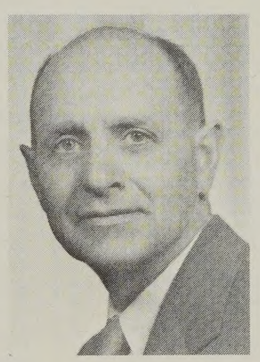


C. NORMAN CHAPMAN
Director

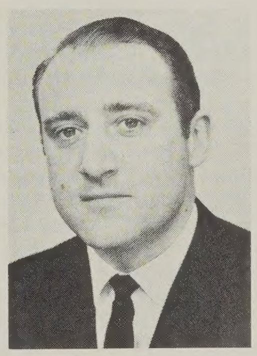
JOHN D. HARRISON, Q.C.
Director



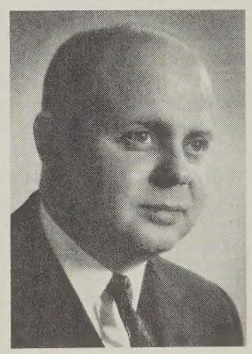
C. W. LEONARDI
Director



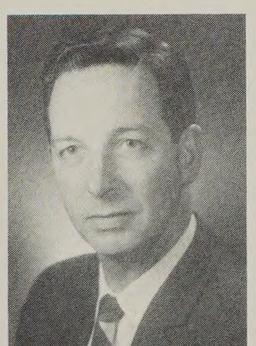
N. T. SANDERSON
Director



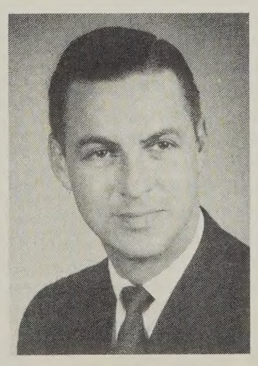
J. R. SHEMILT
Director



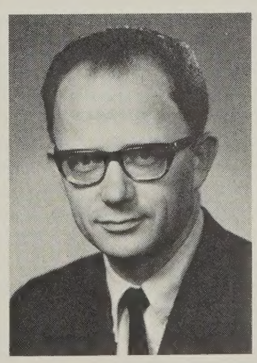
R. W. YANTIS
Director



J. B. GIBSON
Vice-President Operations and Secretary



LYMAN W. OEHRING, Jr.
Vice-President Finance



J. M. WORSNOP
Comptroller

PRESIDENT'S REPORT TO SHAREHOLDERS

1968 saw the beginning of a dramatic and exciting era for Capital Building Industries Limited. The results of your Board of Directors' policy to be expansion and profit oriented, coupled with management's commitment to carry out this policy are evident in almost every segment of our Annual Report.

Sales and profit projections were either attained or exceeded in almost every area of operations. The final results of the year's activities are clearly shown in the statement of earnings and more particularly the Company's balance sheet.

Each day brought a new and exciting challenge that afforded many opportunities, only a few results of which are evident at this time.

The following highlights of your Company's activities during the past twelve months indicates the growth and profitability not only for the past year, but also for the future.

EARNINGS

Consolidated net earnings for 1968 were $807,971 after applicable taxes, which is the equivalent of 24¢ per common share based on the average shares outstanding during the year. This compared with restated 1967 consolidated net earnings of $162,832 or 6¢ a common share on the average shares outstanding. The financial statements for 1967 have been restated, reflecting the acquisition of Frontier Acceptance Corporation Limited which was acquired during 1968 on a pooling-of-interest basis. Also the 1967 financial statements have been restated to reflect the issuance of 1,000,000 common shares which were issued on March 29, 1968 to purchase all of the outstanding shares of Meteor Securities Limited as of October 31, 1967.

FINANCIAL POSITION

In our 1967 Annual Report, shareholders' equity was shown as $1,319,805. As of December 31, 1968 total shareholders' equity was $6,125,444. This is a very dramatic increase and is indicative of management's dedication to the improvement of the Company's financial position and at the same time to produce increasing earnings. These increases came about through the acquisition of Meteor Securities Limited for common shares, the acquisition of Frontier Acceptance Corporation Limited for common shares, the conversion into common shares of most of the 6¼% Convertible Sinking Fund Debentures, Series A, and the conversion into common shares of the 7½% Convertible Subordinated Debentures which were issued for cash during the year.

Besides adding to the equity of the Company, the conversion of debentures eliminated most of the Company's long-term indebtedness except for normal mortgages and notes payable, and the secured income debentures. Subject to shareholders' approval, the holders of the secured income debentures have agreed to exchange them for $600,000 par value of preference shares with an annual dividend rate of 6%, with the balance of the outstanding debentures being redeemed for cash. In February 1969, as part of the purchase price for Middlesex Creamery Limited and Middlesex Reddies Limited, the Company issued unsecured convertible income debentures bearing an annual interest rate of 5½%. Subject to shareholders' approval, the holders of these debentures have agreed to exchange them for convertible preference shares with an annual dividend rate of 5½%. These two transactions will add an additional $1,600,000 to our shareholders' equity, will eliminate all debenture liability, and will eliminate the security provisions now attaching to the secured income debentures.

The decrease in working capital during the year of $944,592 was brought about primarily by the acquisition of fixed assets relating to our expansion program. With the substantially increased equity in the Company (almost $8,000,000 after the transactions referred to in the preceding paragraph) we are in a much better position to finance this growth through the use of longer term funds, and we believe the decrease in working capital to be of a temporary nature.

The Company is in a very sound financial position and the necessary funds are available to complete our 1969 expansion program.

ACQUISITIONS

METEOR SECURITIES LIMITED

As was reported to you last year, the Company acquired all of the outstanding shares of Meteor Securities Limited as of October 31, 1967 for 1,000,000 shares of common stock. This acquisition was finalized on March 29, 1968. The Meteor acquisition brought to us certain commercial land and buildings along with the Red Barn franchise for Canada and Australia and helped to lay the groundwork for our divisionalized organization and operating efficiencies.

FRONTIER ACCEPTANCE CORPORATION LIMITED

On June 15, 1968 your Company made an offer to the shareholders of Frontier Acceptance Corporation Limited to acquire all of the outstanding preference and common shares of Frontier in exchange for common stock and common stock purchase warrants of Capital Building Industries Limited. The results of the offer were successful with almost all of the Frontier shares being tendered for exchange.

J-L VITAMINS AND COSMETICS LIMITED

As of July 20, 1968 we acquired all of the outstanding shares of J-L Vitamins and Cosmetics Limited for cash.

The acquisition of J-L adds immediate earnings and also provides a vehicle for the expansion of this type of retail and wholesale operation.

MIDDLESEX CREAMERY LIMITED — MIDDLESEX REDDIES LIMITED

In January 1969 we executed an agreement to acquire all of the outstanding shares of the above companies for cash and unsecured convertible income debentures, with the acquisition being finalized on February 21, 1969. The operations of these companies have not been included in Capital's 1968 financial statement, but we believe will add significantly to 1969 earnings.

With the current publicity concerning the types of securities sometimes being issued by companies as they acquire additional companies, it is important to point out here that your Company's acquisitions have been carried out on a solid and profitable basis with our capital structure remaining simple and straightforward. Each acquisition has brought to the group something more than just purchased earnings, and we believe each to have a good potential for future internal growth as part of the Capital group of companies. This sound acquisition program will continue to be the policy of your Company.

OPERATIONS

CONSTRUCTION DIVISION

The economic factors that had an adverse effect on the house building industry in 1967 did not substantially change during 1968. Interest rates remained exceptionally high and necessary mortgage funds were difficult to secure in certain areas.

In keeping with our previous policy of controlled costing and building semi-custom units for the middle and higher income markets, this division was able to exceed its profit projections. The demand for semi-custom houses continues to be substantial and we are planning to complete in excess of 100 single family dwellings during 1969.

Opportunities in the construction of multiple-family dwellings continue to be strong and the Company plans to become more active in this field.

The Construction Division contributed substantially to the overall corporate profits in 1968 and we have forecast an increase of profits in this division by 20% in 1969.

BUSINESS DEVELOPMENT DIVISION

This was a very profitable division for the Company in 1968. We continued our policy of disposing of non-revenue-producing land and in particular lands that are not planned for development in the foreseeable future. This philosophy will continue in 1969.

At the beginning of the year, land inventories were $746,000 and we sold $328,000, thus reducing the inventory to $418,000.

Construction of a major eight-storey office building is underway in downtown London. Completion is expected in the fall of 1969. The Ontario Housing contract which was awarded to the Company has been shelved at this point due to the inability of certain Municipal and Provincial authorities to be able to agree on the site-servicing problems.
It is management's plan to greatly increase all areas of this Division's activity during the latter part of 1969.
The Business Development Division contributed substantially to the Company's earnings in 1968 and we look forward to even greater profit from this Division in 1969.

RED BARN DIVISION

Sales for 1968 exceeded all expectations showing an increase of 16.1% over 1967 using the identical store locations as a comparison. Sales of new stores opened are exceeding projections making the overall sales picture most gratifying.
Our 1968 expansion program of 11 units is now completed making a total of 22 units in operation. The 1969 program of 20 additional units for Ontario alone is well underway with six units under construction.
Sites for 1969 will be finalized by mid-year allowing our real estate staff to begin work on the 1970 expansion program.
An area franchise agreement has been consummated for the Atlantic Provinces and there will be at least three Red Barns in operation in this market by year end.
Red Barn profits in 1968 were well above projection and 1969 projections indicate that these profits should at least quadruple.

MANUFACTURING DIVISION

Sales for 1968 were $445,000, well below expectations principally due to the entry into the market of a major competitor and our own policy of only bidding for work which could be completed on a profitable basis. The competitor has now left the market and production to date plus orders on hand for 1969 already amount to $510,000.
Our total projections of sales of $800,000 in 1969 will be reached.

FRONTIER ACCEPTANCE CORPORATION LIMITED

The acquisition of Frontier Acceptance Corporation Limited was completed in July 1968. This acquisition was accounted for on a pooling-of-interest basis with Frontier's earnings for all of 1968, which amounted to $277,618 before tax, being included in the Consolidated Statement of Earnings with a corresponding restatement of 1967's earnings.
Frontier has been in the process of reassessing the various types of financing in which it is engaged with a view to maximizing its profits consistent with reasonable risk. The branch in the Mairtimes has been closed with only one representative now being maintained there to service existing accounts. The head office of Frontier Acceptance Corporation Limited has been located in Metropolitan Toronto, but will be moved to London with some of the operations, such as accounting, being integrated with our head office staff.
As a result of these various changes, we are expecting approximately a 15% increase in Frontier's earnings in 1969 and an even greater increase if Frontier is successful in acquiring additional funds for future growth.

J-L VITAMINS AND COSMETICS LIMITED

Total retail and wholesale sales volume for this division for the full year of 1968 was approximately $2,500,000. The Consolidated Statement of Earnings includes the earnings only since July 20, 1968, the effective date of the acquisition of the Company.
At the time J-L Vitamins and Cosmetics Limited was acquired, it had nine retail outlets in Southwestern Ontario. A new 21,000 sq. ft. warehouse has been opened and expansion plans for new retail stores in 1969 are on schedule. The plan calls for a total of 20 new outlets consisting of company owned stores, franchised stores and associate stores. We believe that 1969 will see sales volume of this division almost double that of 1968.

MIDDLESEX CREAMERY LIMITED —
MIDDLESEX REDDIES LIMITED

The acquisition of the Middlesex companies was completed after the end of our 1968 year. The companies have been profitable and we expect a substantial earnings increase in this division in 1969. 1968 sales for both companies were $10,000,000 and 1969 sales are reasonably projected at $12,000,000. Our projections at this time indicate that the after-tax earnings of these companies will add approximately 5 cents a share to the net earnings of Capital Building Industries Limited in 1969.

INTERNATIONAL OPERATIONS

On January 13, 1969 we concluded an agreement with Spotless Limited, an Australian public company, to purchase a 26% stock interest in Spotless Limited and to licence Spotless Limited to develop Red Barn family restaurants throughout Australia.
Spotless Limited is a 20 year old company with a history of successful operations in the retail dry cleaning and laundry business in Melbourne and Sydney, Australia and has had wide experience in running a large multi-branch operation. The management of Spotless Limited is well equipped to handle the Australian market and we are looking forward to a very profitable association with them in the future, which could also include an Australian development of certain of the other areas in which we are now or may be operating.
We are researching the feasibility of introducing Reddies preportioned butter into the United Kingdom and Europe and it is anticipated that we will have operations going in one or both of these areas by the end of 1969.

CHANGE OF NAME

The name Capital Building Industries Limited, in the view of your Board of Directors, is no longer descriptive of the business of the Company in that only 20% of the Company's activities now centre around the real estate and construction fields.
For this reason, we are asking you as shareholders, to endorse the change of name of the Company to Capital Diversified Industries Limited.

OUTLOOK

As evidenced by 1968 earnings, the overall operations substantially exceeded our 1968 projections. The Company's first quarter earnings for 1969 will be reported during the latter part of April. Many of the divisions are engaged in seasonal activities such as housing, commercial development, Red Barn, manufacturing, etc. Because of the seasonal factor, our consolidated profitability in each quarter will vary from quarter to quarter. While earnings for the first quarter will be dramatically ahead of the comparable quarter in 1968, they are in no way indicative of our anticipated profits for the total year 1969.
The Board has adopted a policy of even greater internal growth in 1969 and continued expansion by way of profitable acquisitions, provided, of course, they have substantial growth potential.
For expansion, the economic scene as related to Capital's various fields of endeavour is most encouraging. Our financial position is such that the Company is adequately financed to carry out our present and future expansion plans.
Our management team has improved greatly not only in depth, but also in its knowledge and operating skills. The first quarter results are on target and substantiate our enthusiasm as we look forward with every confidence to a better year in 1969.
The results of 1968 would not have been possible without the assistance and guidance of all members of the Board of Directors, and on behalf of all shareholders, I would like to express to them a most sincere expression of thanks and appreciation for their continued and enduring efforts.
I would be most remiss if I did not bring to your attention the efforts of our management team and staff. Many changes were effected during 1968 and without exception, everyone accepted the challenge and brought forth the results contained in this Annual Report. Again, on your behalf, I would like to thank them most sincerely for a job well done.

President

CONSTRUCTION DIVISION

CAPITAL QUALITY HOMES — WINDSOR

This division is engaged in the building of semi-custom homes priced in approximately the $27,000 to $45,000 bracket.

Most Capital Quality Homes are pre-sold before they are built. The operation is profitable because a pre-costing standard is used for each home built. Employment of a sophisticated accounting system allows Capital to maintain tight inventory control, helping to keep expenses to a minimum.

The demand for homes in Windsor and surrounding areas continues to be strong and no problems are foreseen in meeting the projection of approximately 100 homes to be built in 1969.

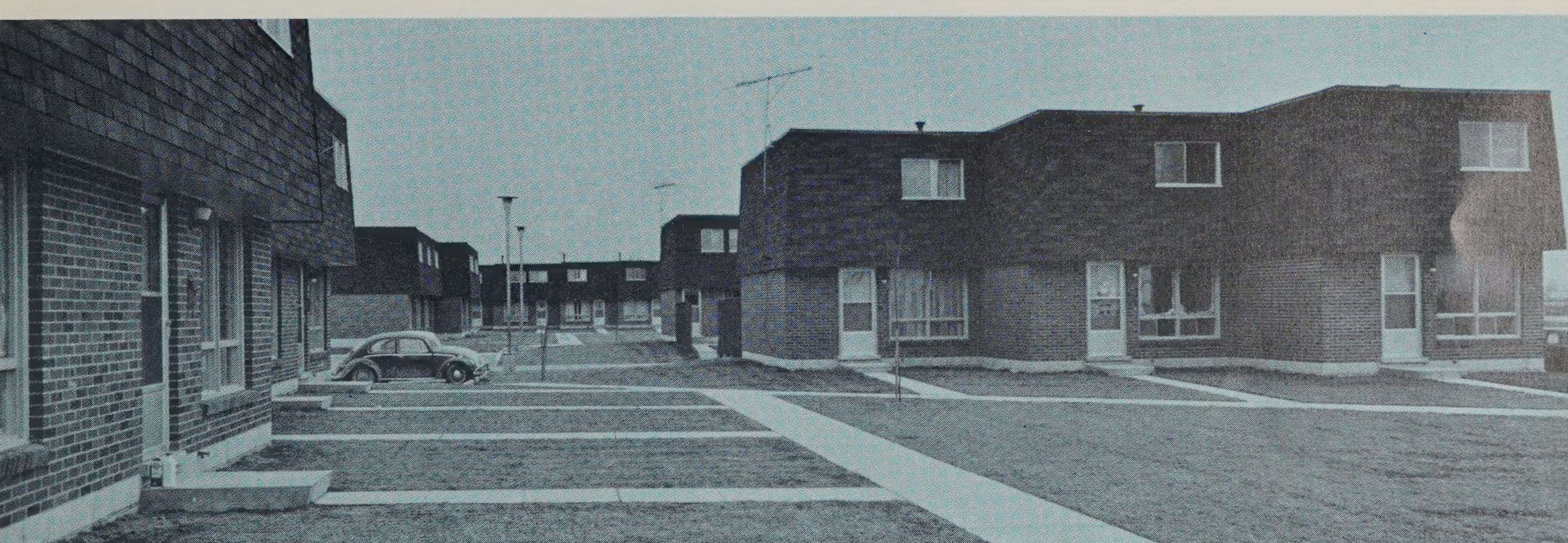
A typical Capital Quality Home is shown above. By offering the purchaser a wide assortment of exterior and interior style choices, Capital is able to customize several basic designs to suit individual taste in layout and decor.

BUSINESS DEVELOPMENT DIVISION

This division is active in all areas of commercial real estate. Operations include the buying and selling of land, as well as development of raw land acreage for residential or commercial use.

Capital owns major parcels of land in Montreal, Ottawa, London, Windsor and several smaller Ontario centres. Some properties are being held for future development and others are being sold as and when profitable opportunities arise.

This division will continue to acquire and develop prime commercial and residential real estate, both for the Company's building program and for resale on a profitable short-term basis. It will also continue to participate in government projects when available.



Second phase of the townhouse development in Amherstburg (near Windsor) is now being completed. This 52 unit housing project resulted from an acute need for rental housing in the Windsor area. The relaxed suburban atmosphere has had great appeal.

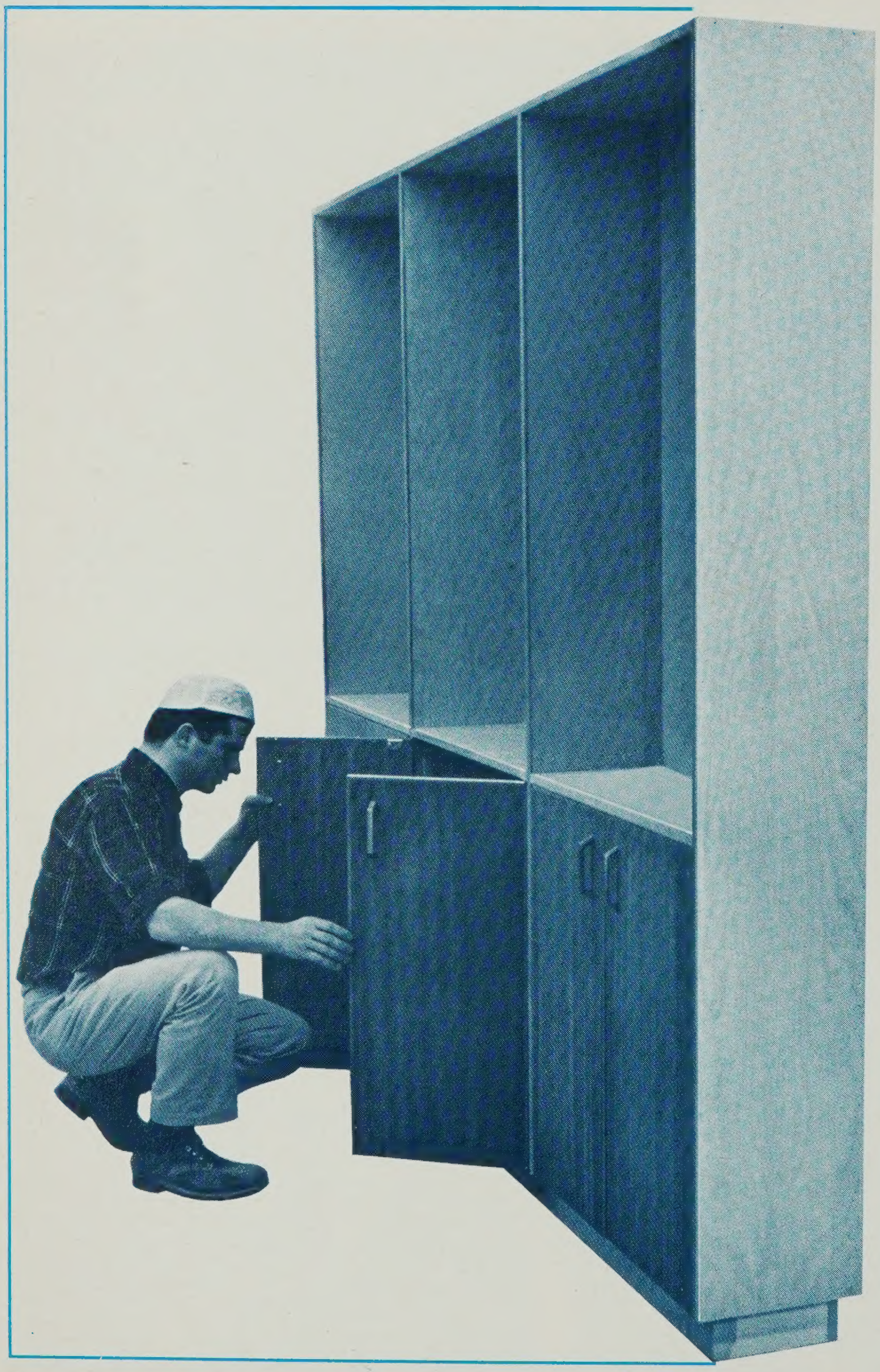
Construction of this 8-storey office building in downtown London, Ontario is now in progress and completion date is set for the fall of 1969. Major occupant of this ultra-modern structure will be I.B.M., who will make it their Western Ontario headquarters.

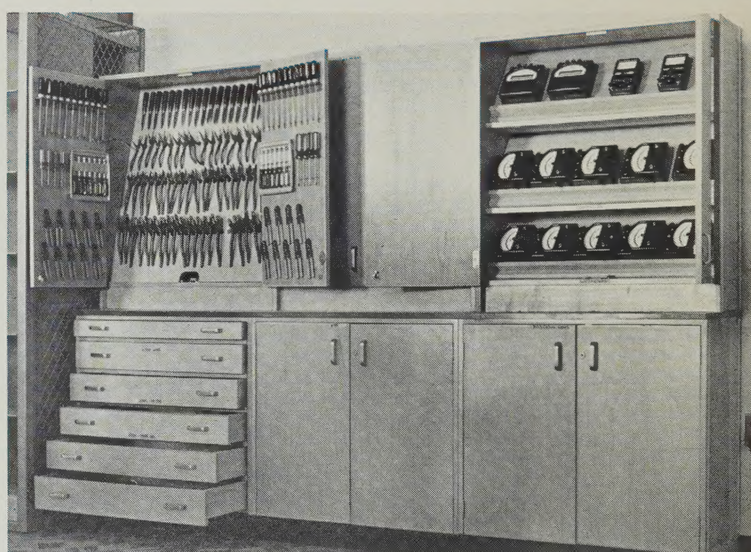
MANUFACTURING DIVISION

ESSEX CABINET MAKERS (ONTARIO) LIMITED — OTTAWA

This division employs approximately 35 workmen producing architecturally designed cabinets and millwork for schools, hospitals and commercial buildings. The millwork shop is equipped with modern machinery, capable of manufacturing fine custom work.

The plant, which was enlarged to approximately 20,000 sq. ft. of floor space in 1967, services custom work orders obtained mostly from Northern and Eastern Ontario.





Above is a custom storage unit designed and built for a secondary school in Ottawa.
Left, a skilled craftsman at Essex checks operation of cabinet doors.
Below left, fruit and vegetable display bins constructed for a major supermarket.
Below right, modular parts storage racks are a recent addition to the Essex line of custom millwork.

FRONTIER ACCEPTANCE DIVISION

FRONTIER ACCEPTANCE CORPORATION LIMITED was acquired during 1968 for an exchange of shares. FRONTIER was organized in 1958 and operated as an independent finance company throughout Eastern Canada with its head office in Toronto. It was a publicly owned company with its shares listed on the Toronto Stock Exchange.

In its early years FRONTIER concentrated on financing home improvements. In recent years its major efforts have been aimed at financing mobile homes. Along with emphasis on mobile homes FRONTIER also makes personal loans and commercial loans.

At December 31, 1968 the details of FRONTIER's receivables were as follows:

Retail:	
Mobile homes	$ 9,036,157
Other consumer retail instalment	263,961
Direct consumer cash loans	1,157,653
Commercial loans	1,964,167
	$12,421,938
Wholesale	749,888
	$13,171,826
Less:	
Unearned finance charges	$ 2,355,730
Allowance for possible losses	135,096
	$ 2,490,826
NOTES RECEIVABLE — NET	$10,681,000

Since 1965 the money markets have tightened considerably and money costs have increased substantially. Despite this, FRONTIER has had a consistent record of profitable operations throughout its history. Its basic operating philosophy has been to run an efficient operation and concentrate in areas of financing not yet fully exploited by banks and other finance companies.

As a member of the Capital group of companies it is anticipated that FRONTIER will continue to operate in broad areas of consumer and commercial financing, along with the aim of obtaining additional funds for growth. In addition it will function as a financial subsidiary available to provide financial assistance and expertise to Capital's other subsidiaries and their customers in those cases where they need financial services normally provided by a finance company. FRONTIER funds will not be used to finance acquisitions, or to finance growth in the other divisions where receivables would not be compatible with FRONTIER's normal operations.

CONDENSED BALANCE SHEET

	DECEMBER 31 1968	1967
ASSETS		
Cash	$ 63,176	$ 127,823
Notes receivable, net of unearned finance charges and allowance for possible losses	10,681,000	10,723,090
Other assets and deferred charges	175,198	183,982
	$10,919,374	$11,034,895
LIABILITIES AND SHAREHOLDERS' EQUITY		
Short-term notes payable to banks — secured	$ 5,990,000	$ 6,082,209
Accounts payable, accrued liabilities, income taxes and dealers' credit balances	594,332	545,735
Capital funds:		
Long-term subordinated debt	$ 2,733,500	$ 2,978,250
Shareholders' equity:		
Preference shares	$ 384,250	$ 384,250
Common shares	575,463	512,963
Retained earnings	641,829	531,488
TOTAL SHAREHOLDERS' EQUITY	$ 1,601,542	$ 1,428,701
TOTAL CAPITAL FUNDS	$ 4,335,042	$ 4,406,951
	$10,919,374	$11,034,895

CONDENSED STATEMENT OF NET EARNINGS

	YEAR ENDED DECEMBER 31 1968	1967
Finance charges, interest and fees earned	$1,462,496	$1,339,280
Deduct:		
Salaries and wages	$ 151,389	$ 164,150
Other general and administrative expenses	231,047	183,333
Provision for possible losses	97,390	80,084
Cost of borrowings, principally interest	705,052	616,174
	$1,184,878	$1,043,741
EARNINGS BEFORE TAXES ON INCOME	$ 277,618	$ 295,539
Taxes on income	142,300	146,500
NET EARNINGS	$ 135,318	$ 149,039

RED BARN DIVISION

RED BARN SYSTEM (CANADA) LIMITED

Through its subsidiary Red Barn System (Canada) Limited, Capital has exclusive franchise rights in Canada and Australia for the RED BARN chain of fast-service family restaurants.

The fast food industry is relatively new in the Canadian market and, based on experience in the U.S. market, it is anticipated that the growth rate will accelerate over the next several years.

Red Barn System (Canada) Limited
GROWTH PROJECTION

	1967	1968	1969	1970
Ontario	11	22	42	64
Other Provinces	—	—	15	20
Total	11	22	57	84

The Red Barn division will continue to control all franchises in Ontario on a direct franchise basis and is arranging for area franchise operations in the rest of Canada. The Company will have a minimum of 25% interest in these area franchises and the right to purchase the remaining shares on an earnings formula basis in future years.

AREA FRANCHISES IN CANADA

(OUTSIDE OF ONTARIO)

Atlantic Provinces Agreement with an area franchisee in the Atlantic provinces has been announced. Ten Red Barn units are scheduled for opening by the end of 1971.

Quebec Discussions are now being held with interested parties for the formation of a company to purchase the area franchise for the province of Quebec. Projections indicate that 30 Red Barn units will be opened in Quebec province in the next five years.

Northern Ontario and Manitoba Details will be finalized this year to grant an area franchise, and it is expected that ten units will be opened over the next three years.

British Columbia, Alberta & Saskatchewan Arrangements are being made to extend the area franchise system to the Western provinces, although the exact geographical areas have not been firmly established. Thirty units are expected to be built over the next five years.

Red Barn restaurants cater to the family trade. Year round air-conditioning, seating for 32, fast counter service and food preparation of the highest standard in quality and cleanliness, are all factors which build a high volume of business.

AUSTRALIA

CAPITAL BUILDING INDUSTRIES LIMITED has entered into an agreement with SPOTLESS LIMITED (of Australia) to open a chain of Red Barn fast food family restaurants in Australia. Under this agreement, Capital will own a 26% equity interest in Spotless, with the ownership investment to be made progressively, as Red Barn restaurants are opened.

Spotless Limited has been in business over 20 years and is a well established Australian company, listed on the Melbourne Stock Exchange. Spotless, which operates a laundry and dry cleaning business with over 750 retail outlets in Melbourne and Sydney, Australia, already has management experience in the fast food industry through a subsidiary company. This management group will receive assistance in the various phases of Red Barn operations from Capital's wholly owned subsidiary, Red Barn System (Canada) Limited.

It is planned that construction of the first Australian Red Barn units will begin immediately and that 80 Red Barn family restaurants will be opened in Australia within five years.

J-L VITAMINS & COSMETICS DIVISION

J-L VITAMINS & COSMETICS LIMITED was acquired by Capital in July, 1968. The company operates a chain of health and beauty aid stores as well as a wholesale organization, with 1968 sales of $2,500,000. Projections for 1969 show an increase to $4,500,000 in annual sales. In addition to increasing the number of company-owned stores, the company will be developing its franchise system in the retail field in the immediate future. By leasing store-front locations in downtown areas of Ontario cities and towns, J-L plans to open 20 company-controlled units in 1969.

Typical J-L stores are located in downtown locations with a high pedestrian traffic pattern. They usually occupy 1400 to 1800 sq. ft. of floor space and are leased on a long term basis. The product range offered in the stores includes proprietary medicines, cosmetics, toiletries, cigarettes, cameras and films and a variety of other sundry items. Certain popular packaged foods are also stocked.

To offer a wide variety of brand-name products at lowest possible prices, it is necessary to limit the lines carried to those items that move in volume. The volume flow is the main factor in producing the lowest and most competitive prices at the retail level.

A central buying office is located in the new 21,000 sq. ft. warehouse facility, ideally situated in the new Westminster Industrial Park adjacent to the Macdonald-Cartier Freeway (Highway 401) in London. J-L's own delivery trucks supply the company-owned stores and associate stores. In addition, over 40 wholesale accounts are supplied from the central warehouse. The wholesale business has grown with the co-operation of major national brand manufacturers, who rely on J-L to distribute products to small merchants.

The broad acceptance of J-L stores may be traced to the convenient downtown locations at which most popular brand-name products are available. All stores are brightly lit, colourful, clean and designed for quick service. All merchandise is within easy reach, and placed so as to take advantage of customer impulse buying. Research indicates that this type of retail outlet appeals to people in all income brackets.

Middlesex Creamery Limited
Middlesex Reddies Limited

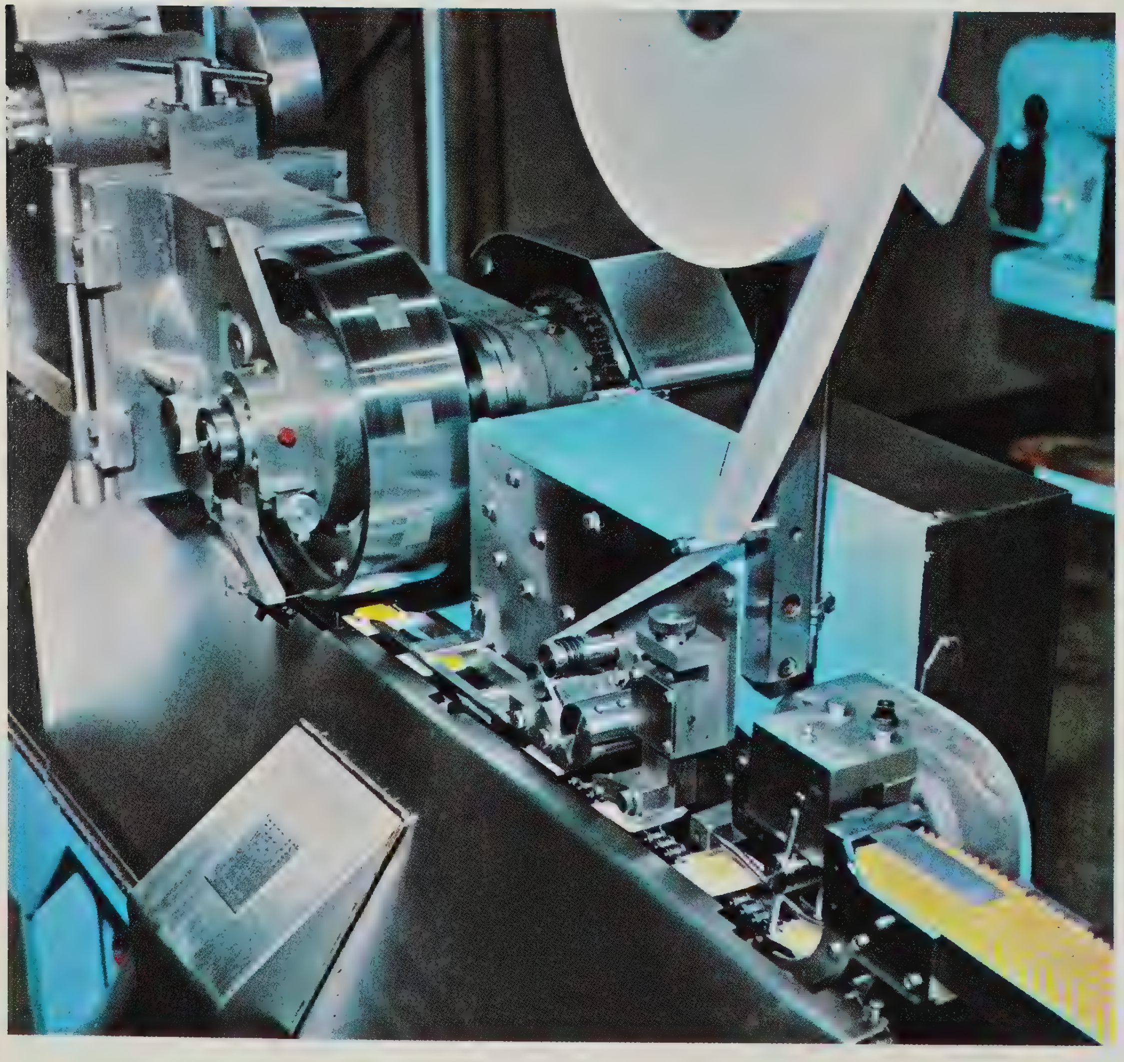
This division became part of Capital Building Industries Limited early in 1969. The acquisition consists of *Middlesex Creamery Limited*, which processes butter and eggs, and *Middlesex Reddies Limited* which produces a portion-controlled butter or margarine product known as "Reddies".

The Creamery commenced operation in 1937, and today is the largest Canadian company of its kind. In 1968, over 8½ million pounds of print butter were shipped. The processing of eggs on a mass scale has paralleled the growth in the butter division of Middlesex Creamery. The output of eggs from the Middlesex plant amounted to about 4½ million dozen in 1968. A large clientele has been developed, with both butter and eggs being custom packed for major supermarkets and dairies.

The Reddies operation was started in 1962, when Middlesex obtained a licence to process "Reddies" under an agreement with the developer of a revolutionary new machine, which mass produces a portion-controlled butter pattie. The finished "Reddies" are produced in many different "Reddies Hats" and packed in custom designed boxes for delivery to wholesale customers across Canada. Sales of Reddies have been growing rapidly and the volume of butter and margarine, in the form Reddies, shipped in 1968, amounted to over 2 million pounds.

Some of Canada's largest wholesale food suppliers, major frozen food distributors and dairies make up the type of customers now being supplied by Middlesex Reddies Division.

Capital's Newest Acquisition
MIDDLESEX REDDIES DIVISION



On the opposite page, a close-up view of the Reddies machine in operation. Middlesex has three such machines, each producing 1,200 portion-controlled patties per minute. To handle the steadily increasing demand for Reddies a fourth machine is being added. The plant production is presently 10,000 pounds a day. The Reddies production unit may also be adjusted to produce salt-free butter patties and other pre-portioned convenience items.

Above, the introduction of automatic machinery has greatly increased the output of pound butter, known as "Print Butter" in the trade. The CONTIMALAX machine is the most advanced equipment known in the industry today. It mixes the butter to a regulated consistency, adjusts the proper moisture and salt content, shapes the butter, weighs the unit and wraps the finished print butter product in a custom printed label. It then packs the butter in protective containers for shipment to major supermarkets and dairies.

Shown at right is part of the fleet of ten trucks and refrigerated vans used to deliver products of Middlesex Reddies Limited and Middlesex Creamery Limited to most major centres in Southwestern Ontario.

CAPITAL BUILDING INDUSTRIES LIMITED

(INCORPORATED UNDER THE LAWS OF ONTARIO)

CONSOLIDATED BALANCE SHEET

AS AT DECEMBER 31, 1968

ASSETS

	1968	1967 (Notes 1 and 5)
CURRENT ASSETS:		
Accounts receivable	$ 355,216	$ 274,882
Mortgage draws receivable	134,936	177,298
Current portion of mortgages and notes receivable	292,186	224,067
Inventories — at the lower of cost and net realizable value:		
Real estate	552,092	582,145
Land and improvements not yet utilized in construction	522,628	1,249,312
Millwork materials	75,774	69,055
Retail and wholesale merchandise	761,884	—
Sundry assets and prepaid expenses	79,207	80,879
	$ 2,773,923	$2,657,638
INVESTMENTS:		
Commercial real estate	$ 2,463,783	$2,002,208
Mortgages and notes receivable — non-current portion	1,082,597	371,932
Equity in and advances to affiliated companies	201,296	161,978
Investment in unconsolidated finance subsidiary — at equity in net assets (Note 1)	1,567,542	1,421,839
	$ 5,315,218	$3,957,957
FIXED ASSETS (Note 2):		
Land, buildings, equipment and leasehold improvements — at cost	$ 2,328,918	$ 749,486
Less accumulated depreciation and amortization	248,928	192,422
	$ 2,079,990	$ 557,064
OTHER ASSETS:		
Organization, financing expenses and deferred charges, less accumulated amortization	$ 98,427	$ 127,745
Excess of cost of shares of subsidiaries over equity acquired therein	1,374,659	960,437
	$ 1,473,086	$1,088,182
TOTAL ASSETS	$11,642,217	$8,260,841

Approved on Behalf of the Board

J. W. ADAMS, F.C.A., Director　　C. W. LEONARDI, F.C.A., Director

LIABILITIES AND SHAREHOLDERS' EQUITY

	1968	1967
CURRENT LIABILITIES:		
Bank indebtedness — secured	$ 1,312,530	$ 429,455
Accounts payable and accrued liabilities	983,476	489,899
Income taxes payable	89,387	30,136
Current portion of long-term debt	239,160	614,186
	$ 2,624,553	$1,563,676
LONG-TERM DEBT — NON-CURRENT PORTION:		
Mortgages and notes payable (Note 2)	$ 2,097,309	$1,467,207
6¼% Convertible Sinking Fund Debentures — Series A — due 1977	—	900,000
Secured income debentures — due 1978 (Note 3)	794,911	838,314
	$ 2,892,220	$3,205,521
SHAREHOLDERS' EQUITY:		
CAPITAL STOCK (Notes 4 and 8):		
Authorized		
5,000,000 shares without par value		
Issued and Fully Paid		
3,923,040 shares	$ 5,964,893	$4,034,405
Retained earnings (deficit)	160,551	(542,761)
	$ 6,125,444	$3,491,644
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$11,642,217	$8,260,841

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1968

	1968	1967 (Notes 1 and 5)
SALES AND OTHER REVENUES	$6,382,735	$6,030,643
COSTS AND EXPENSES:		
Cost of sales	$4,306,300	$5,290,007
Selling, general and administrative expenses	1,076,054	606,258
Interest on long-term debt	221,042	93,682
Depreciation and amortization	63,432	26,903
	$5,666,828	$6,016,850
	$ 715,907	$ 13,793
Add earnings of unconsolidated finance subsidiary, before income taxes	277,618	295,539
Earnings before income taxes	$ 993,525	$ 309,332
Provision for income taxes (Note 6)	185,554	146,500
NET EARNINGS FOR THE YEAR	$ 807,971	$ 162,832
Earnings per common share on average shares outstanding	$ .24	$ .06

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1968

	1968	1967 (Notes 1 and 5)
Balance beginning of year (deficit):		
As previously reported	($1,074,249)	($1,019,320)
Retained earnings of unconsolidated finance subsidiary	531,488	407,426
	($ 542,761)	($ 611,894)
Add net earnings for the year	807,971	162,832
	$ 265,210	($ 449,062)
Deduct:		
Preference dividends of unconsolidated finance subsidiary	$ 13,961	$ 24,977
Income tax assessments pertaining to prior years	(2,440)	7,897
Prior years' adjustments	51,349	60,825
Costs of acquiring unconsolidated finance subsidiary	41,789	—
	$ 104,659	$ 93,699
Balance end of year (deficit)	$ 160,551	($ 542,761)

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

FOR THE YEAR ENDED DECEMBER 31, 1968

SOURCE OF FUNDS

Net earnings for the year	$ 807,971
Add charges not requiring cash outlay — depreciation and amortization	63,432
	$ 871,403
Less net earnings of unconsolidated finance subsidiary	135,318
Total funds provided from earnings	$ 736,085
Proceeds from issuance of capital stock	1,930,488
Reduction of deferred charges	29,318
Dividends from unconsolidated finance subsidiary	11,016
Increase in mortgages and notes payable	630,102
	$3,337,009
Decrease in working capital	944,592
	$4,281,601

USE OF FUNDS

Acquisition of fixed assets (Net)	$1,586,358
Increase in investments:	
Commercial real estate	461,575
Mortgages and notes receivable	710,665
Affiliated companies	39,318
Unconsolidated finance subsidiary	35,362
Reduction of long-term debt:	
6¼% Convertible Sinking Fund Debentures — Series A	900,000
Secured income debentures	43,403
Excess of cost of shares of subsidiaries over equity acquired therein	414,222
Prior years' adjustments to retained earnings	90,698
	$4,281,601

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Capital Building Industries Limited and its subsidiaries as at December 31, 1968 and the consolidated statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination of the financial statements of Capital Building Industries Limited and the subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the report of the auditors who examined the financial statements of the subsidiary of which we were not the auditors.

In our opinion these consolidated financial statements present fairly, on a consolidated basis, the financial position of the Companies as at December 31, 1968 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada
March 7, 1969

McDONALD, CURRIE & CO.
Chartered Accountants

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1968

NOTE 1: PRINCIPLES OF CONSOLIDATION AND ACQUISITIONS

The accompanying financial statements include the accounts of the Company and its subsidiaries on a consolidated basis except for Frontier Acceptance Corporation Limited which is carried as an investment at the equity in the net assets of Frontier Acceptance Corporation Limited.

During 1968, the Company acquired substantially all of the outstanding preference and common shares of Frontier Acceptance Corporation Limited for 608,720 common shares of the Company and warrants to purchase an additional 235,604 of the Company's common shares at a price of $3.00 a share until July 16, 1973. After the expiration of the exchange offer additional preference and common shares of Frontier Acceptance Corporation Limited were acquired for cash in the open market.

As at December 31, 1968 there was a minority interest of 1,360 preference shares of Frontier Acceptance Corporation Limited ($34,000) which amount has been deducted from the total investment in the unconsolidated finance subsidiary. The minority interest of 324 common shares of Frontier Acceptance Corporation Limited ($1,986 — which includes minority interest earnings for the year of $220) is not shown separately, as it has been considered to be insignificant.

The acquisition of Frontier Acceptance Corporation Limited has been accounted for on a pooling-of-interest basis and accordingly the earnings of Frontier Acceptance Corporation Limited for the full year 1968 have been included in the Consolidated Statement of Earnings. The statements for 1967 have been correspondingly restated for comparative purposes.

As of July 20, 1968 the Company acquired all of the outstanding common shares of J-L Vitamins and Cosmetics Limited for cash. The earnings of J-L Vitamins and Cosmetics Limited since the date of acquisition have been included in the Consolidated Statement of Earnings.

As of September 1, 1968 the Company acquired for cash all of the outstanding common shares of Frankfair Drive-In Restaurants Limited which company operates one Red Barn restaurant. The earnings of Frankfair Drive-In Restaurants Limited since the date of acquisition have been included in the Consolidated Statement of Earnings.

NOTE 2: FIXED ASSETS

Details of fixed assets are as follows:

	1968	1967
Land	$ 991,563	$ 123,975
Buildings	835,970	364,267
Equipment	438,215	216,873
Leasehold improvements	63,170	44,371
	$2,328,918	$ 749,486
Less accumulated depreciation and amortization	248,928	192,422
	$2,079,990	$ 557,064

NOTE 3: MORTGAGES AND NOTES PAYABLE

These obligations are secured by certain fixed assets and commercial real estate and have final due dates of principal as follows:

1969	7% to 10.85%	$ 122,944
1970	7% to 15%	38,588
1971	10% to 12%	247,761
1972	6% to 11%	166,337
1973	7.5% to 11%	232,550
1974	6%	106,283
1975	10%	34,842
1978	7% to 8.5%	151,114
1983	8%	19,972
1985	—	30,000
1988	8% to 8.5%	101,136
1990	5.75%	689,799
1993	7%	363,955
2000	7%	31,188
		$2,336,469
Less current portion		239,160
		$2,097,309

The maturity dates shown above reflect only the final due dates of the balances owing at December 31, 1968 and do not reflect the required systematic repayment of principal. An amount due to an unconsolidated finance subsidiary of $128,253 is included in the year 1973 above, of which $16,320 is included in current portion.

NOTE 4: SECURED INCOME DEBENTURES — DUE 1978

The secured income debentures are direct obligations of a subsidiary and are secured by certain assets of the subsidiary. Interest is payable annually based on earnings and is currently at the maximum annual rate of 6%. Principal repayment is required based on a percentage of the net proceeds from the sales of certain assets, and any unpaid principal shall be paid in instalments during the years 1974 through 1977. The holders of the debentures have agreed to exchange the debentures for $600,000 par value of preference shares with an annual dividend rate of 6%, plus cash for the balance of the debentures, subject only to shareholders' approval of the authorization of the preference shares.

NOTE 5: CAPITAL STOCK

Pursuant to a by-law confirmed by Supplementary Letters Patent dated February 16, 1968, the authorized capital of the Company was increased by creating an additional 3,000,000 common shares without par value ranking on a parity with the then existing 2,000,000 common shares.

On July 5, 1968 a director of the Company exercised his option to purchase 25,000 common shares of the Company at the price of $.90 per share. On May 21, 1968 and August 21, 1968 two employees exercised their options to purchase, in total, 1,750 common shares of the Company at the price of $1.85 per share. At December 31, 1968 no directors, officers or employees held options to purchase common shares of the Company.

On March 29, 1968, 1,000,000 common shares of the Company were issued to the vendors of Meteor Securities Limited pursuant to the purchase of all of the outstanding shares of Meteor Securities Limited as of October 31, 1967. For comparative purposes the balance sheet at December 31, 1967 has been restated to reflect the issuance of these common shares.

During the year, 351,670 common shares of the Company were issued upon conversion of $764,500 face amount of 6¼% Convertible Sinking Fund Debentures — Series A. The balance of $135,000 of the Debentures was redeemed for cash.

During the year the Company issued $1,250,000 7½% Convertible Subordinated Debentures for cash which were subsequently converted into 500,000 common shares of the Company.

On June 15, 1968 the Company's offer to acquire all of the issued and outstanding preference and common shares of Frontier Acceptance Corporation Limited was made on the following basis: (a) for each preference share of Frontier Acceptance Corporation Limited, 9 common shares of the Company and warrants to purchase 3 common shares of the Company at a price of $3.00 a share until July 16, 1973; and (b) for each common share of Frontier Acceptance Corporation Limited, 2½ common shares of the Company and a warrant to purchase 1 common share of the Company at $3.00 a share until July 16, 1973. Pursuant to the offer 608,720 common shares of the Company and 235,604 warrants were issued. Subsequently 400 common shares of the Company were issued upon exercise of warrants.

Of the authorized and unissued common shares of the Company at December 31, 1968, 235,204 shares are reserved for Share Purchase Warrants — Series A (issued in connection with the acquisition of substantially all of the preference and common shares of Frontier Acceptance Corporation Limited) exercisable at $3.00 a share on or before expiration date July 16, 1973; 50,000 shares are reserved for Share Purchase Warrants — Series B (issued in connection with the 7½% Convertible Subordinated Debentures) exercisable at $2.50 a share until June 30, 1973, and thereafter at $3.50 a share until expiration date June 30, 1978; and 48,000 shares are reserved for Share Purchase Warrants — Series C exercisable at $2.50 a share until expiration date December 15, 1977.

Changes in Capital Stock during the year are summarized as follows:

	Number of Shares	Amount
Common shares outstanding beginning of year:		
As previously reported . . .	1,435,500	$2,394,054
Common shares issued during the year and included in 1967 restated amounts:		
Acquisition of Meteor Securities Limited	1,000,000	750,000
Acquisition of Frontier Acceptance Corporation Limited (after deducting amounts included in retained earnings) . . .	608,720	890,351
	3,044,220	$4,034,405
Additional common shares issued during the year:		
Conversion of 6¼% Convertible Sinking Fund Debentures — Series A .	351,670	687,637
Conversion of 7½% Convertible Subordinated Debentures	500,000	1,215,913
Exercise of director and employee options	26,750	25,738
Exercise of Share Purchase Warrants — Series A . . .	400	1,200
Common shares outstanding end of year	3,923,040	$5,964,893

NOTE 6: INCOME TAXES

Certain operating subsidiaries have applied losses of prior years against current earnings to reduce income taxes otherwise payable for the year amounting to approximately $320,000. These subsidiaries have accumulated losses of approximately $800,000 which may be applied to reduce their taxable incomes of certain future years.

NOTE 7: LEASES

Minimum annual rental costs under lease agreements which extend for more than five years from December 31, 1968 aggregate approximately:

1969	$165,040	1977	$144,470
1970	154,680	1978-1979 .	127,970
1971	151,920	1980-1982 .	115,970
1972-1973 .	146,520	1983	82,550
1974	138,840	1984	72,100
1975	137,390	1985	38,100
1976	138,470	1986-1988 .	12,600

NOTE 8: COMPENSATION OF DIRECTORS AND SENIOR OFFICERS

Aggregate direct remuneration paid or payable by the Company and its subsidiaries whose financial statements are consolidated with those of the Company to the directors and senior officers of the Company was $128,359.

Aggregate direct remuneration paid or payable to such directors and senior officers by the subsidiary whose financial statements are not consolidated with those of the Company was $34,600.

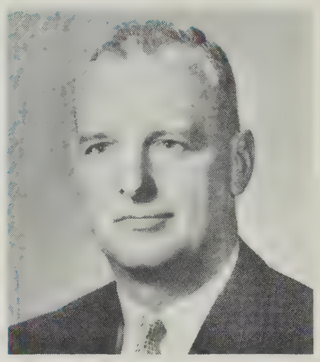
NOTE 9: SUBSEQUENT EVENTS

Subsequent to December 31, 1968 the Company acquired all of the issued and outstanding common shares of Middlesex Creamery Limited, Middlesex Reddies Limited and Middlesex Investments Limited for cash and $1,000,000 face amount of unsecured convertible income debentures bearing interest at 5½% per annum. The debentures are convertible into common shares of the Company at a price of $8.00 a share. The Company will reserve 125,000 of the authorized and unissued common shares for conversion of the debentures.

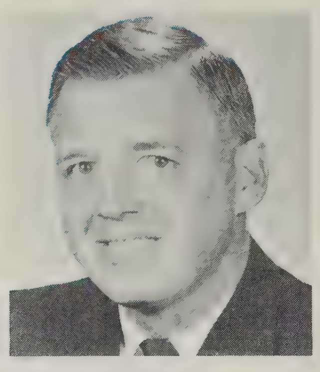
The holders of the debentures have agreed to exchange the debentures for $1,000,000 par value of convertible preference shares with an annual dividend rate of 5½% and the same conversion privileges as the debentures, subject only to shareholders' approval of the authorization of the preference shares.

CAPITAL BUILDING INDUSTRIES LIMITED

SENIOR EXECUTIVE STAFF

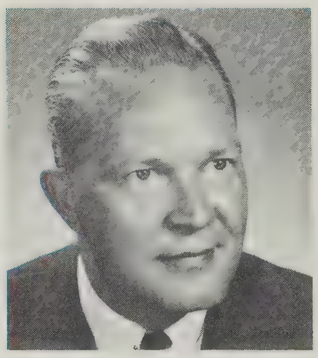


D. J. HERON
Director of Retail Services



W. C. WHEELER
Director of Marketing

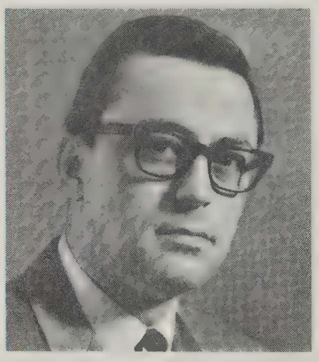
HEADS OF OPERATING DIVISIONS



M. R. DENNIS
President,
Middlesex Reddies Limited
& Middlesex Creamery Limited

M. LEVER
President
J-L Vitamins &
Cosmetics Limited

H. SHNEER
President
Red Barn System
(Canada) Limited



D. W. McTAVISH
General Manager,
Frontier Acceptance
Corporation Limited

E. ASCIAK
Manager
Construction
Division

C. D. DESJARDINS
Manager
Manufacturing
Division

RICHARDSON SECURITIES OF CANADA

AR19

JAMES A. RICHARDSON GEORGE T. RICHARDSON

STOCKS - BONDS
COMMODITIES

RESEARCH DEPARTMENT

CAPITAL BUILDING INDUSTRIES LIMITED

Price Range in 1968		Recent	Earnings Per Share		Indicated	P/E	
High	Low	Price	1967	1968(Est)	Dividend	Ratio*	Yield
$4.35	$1.30	$4.00	.01	.20 - .25	Nil	17.7	Nil

* Based on estimated earnings for 1968.

- As a result of a recent programme of acquisitions and a realignment of operations, the Company is now a profitable junior size conglomerate. Its largest division is the Red Barn restaurant franchise for Canada.

- Earnings for 1968 are estimated at approximately 20-25¢ per share and a substantial increase, to perhaps 50¢ per share, is visualized for 1969.

- Capital is currently trading at 17.7 times estimated earnings for 1968 but only eight times estimated earnings for 1969.

- We consider the stock attractive for investors seeking medium term capital appreciation and willing to accept the risks associated with volatile security.

THE COMPANY

Until last year, the Company was primarily a small developer of real estate in Ontario and Quebec. Through a subsidiary, Essex Cabinet Makers, the Company was also engaged in the manufacture of furniture. Late in 1967, Capital announced the acquisition of Meteor Securities Limited, a private company controlled by Mr. D. H. Swift, a successful London, Ontario automobile dealer. This deal was actually a "reverse takeover" as the principals of Meteor assumed control of Capital.

Subsequently, management began selling off unprofitable operations and initiated a programme of acquisitions. As a result of its corporate reorganization, Capital's operations may now be divided as follows:

CONSTRUCTION DIVISION

This division builds single and multiple family dwellings, mainly in the Windsor, Ontario area. Due to "tight" money the number of single unit starts during 1967 declined from 169 to 74. This year, however, the Company expects to build and sell approximately 100 units. The average price of these homes is about $40,000. In order to offset the slowdown in single unit sales, the Company has expanded its interests in the field of multiple unit dwellings.

BUSINESS DEVELOPMENT DIVISION

This division is engaged in all forms of land and commercial development in Ontario and Quebec. Several parcels of land are owned in downtown London and one parcel is owned in Brampton. Currently, the division has three major projects underway or to commence soon. These include the building of a 253 unit family housing project for the Ontario Housing Corporation in Windsor, the second stage of a two stage town house development in Amherstberg, and development of a $2.5 million office building in London.

MANUFACTURING DIVISION (ESSEX CABINET MAKERS)

Essex is a small, Ottawa based, manufacturer of architecturally designed cabinets and office furniture. Annual sales are estimated at approximately $600,000. Although bookings this year are ahead of 1968, deliveries have been slow due to the numerous strikes. Thus, we would expect little increase in Essex's earnings this year.

FRONTIER ACCEPTANCE DIVISION

Frontier, a small but capably managed finance company, was acquired by Capital earlier this year in exchange for just over 600,000 shares and approximately 234,000 warrants, each to purchase one common share at $3.00 for five years. As well as diversifying the Company's interests and providing a stimulus to consolidated earnings, the acquisition is expected to provide much of the necessary financing for expansion of Capital's franchise operations which are discussed in the following section.

RED BARN SYSTEM (CANADA) LIMITED

Just prior to its takeover by Capital, Meteor acquired exclusive Canadian rights to the Red Barn system of fast-service restaurants for Canada. As of December 31, 1967, Red Barn had 11 units operating in Ontario, and under the master agreement, the Company is committed to open a minimum of 60 stores in Ontario during the next five years. Capital intends to expand throughout Canada by a series of sub-licensing agreements. It is believed that these agreements will be concluded shortly.

The corporate franchise fast-food industry began in the United States about twenty years ago and has had an impressive growth record, particularly in the past ten years. The industry in Canada is still in its infancy and appears to have growth prospects of similar proportions to that witnessed in the United States.

Each unit will be built by Capital at an average cost of $175,000 per unit and leased to the franchisee. Income for Capital will be in the form of the initial franchise fee, lease payments and a percentage of gross revenue. The Company will open 11 units this year and plans call for a further 20 units next year. This includes only Capital's plans for Ontario and does not take into account any growth by way of sub-licensing agreements in other parts of Canada.

J & L VITAMINS AND COSMETICS LIMITED

Capital recently announced acquisition of J & L, a chain of health and beauty aid stores in Southern Ontario. The Company was purchased for an undisclosed amount of cash. J & L currently operates a warehouse, eight company-owned stores, and five franchise stores. Annual volume is estimated at approximately $2.5 million. Management has indicated that it will aggressively expand J & L's operations over the next couple of years.

EARNINGS

Because of the very dramatic changes in the organization of Capital, it is very difficult to estimate earnings over the next year or so. However, based on our assessment, we expect earnings for 1968 should be 20-25¢ per share versus one cent per share in 1967 and may rise next year to 50¢ per share or better. For the first six months of 1968, the Company reported earnings of $260,000 or eight cents per share with Frontier consolidated on a pooling of interests basis.

For 1968, we estimate 40% of Capital's income will be derived from the Red Barn franchise with an additional 10% accruing from J & L. These two operations will be the major impetus to earning growth over the next year and may account for 70% of total income in 1969.

OUTLOOK

During the past year, as a result of its corporate reorganization, the Company has been transformed from a small real estate company into a much larger conglomerate whose major source of revenue is expected to stem from fast growing food and drug interests. The stock is currently trading at 17.7 times estimated earnings for 1968 but only eight times projected earnings for 1969. It might be noted that our estimates give no weight to the possibility of further acquisitions.

Although the stock has had a good move over the past year, we do not feel that the market has yet fully assessed the growth prospects of this company. Accordingly, we consider the stock attractive for investors seeking medium term appreciation and willing to accept the risks inherent in a volatile security.

CAPITALIZATION (as at December 31, 1967)

Long term debt

6 1/4% Convertible Sinking Fund Debentures Series "A"	$ 900,000
Secured Income Debentures	$ 838,314

Common*	2,435,500 shares

* Since year end the Company has issued to shareholders of Frontier Acceptance 610,330 shares and 234,795 warrants to purchase stock at $3.00 per share for five years.

RICHARDSON SECURITIES OF CANADA

EXECUTIVE OFFICES: 173 PORTAGE AVENUE, EAST
WINNIPEG, MANITOBA

BRITISH COLUMBIA

Vancouver	955 West Hastings Street	682-1751
Victoria	1060 Douglas Street	385-1421
Prince George	465 Quebec Street	563-1517

ALBERTA

Edmonton	10053-A Jasper Avenue	424-0231
Calgary	319 - 8th Avenue West	267-3100
Lethbridge	709 - 4th Avenue South	327-5757
Medicine Hat	562 - 2nd Street South East	527-3307

SASKATCHEWAN

Regina	1935 Scarth Street	523-4681
Saskatoon	222 - 22nd Street East	244-7971
Moose Jaw	18 High Street East	692-2337
Swift Current	115 Central Avenue	773-3161

MANITOBA

Winnipeg	211 Portage Avenue	943-9311
Brandon	123 - 10th Street	727-0681

ONTARIO

Toronto	120 Adelaide Street West	362-3941
Chatham	146 Wellington Street West	352-1510
Galt	6 Ainslie Street South	621-4350
Hamilton	22 King Street East	528-0477
Kenora	307 Second Street South	468-9881
Kingston	90 Brock Street	546-4211
Kitchener	18 Queen Street North	578-1100
London (Ont.)	380 Richmond Street	432-8301
Ottawa	138 Wellington Street	237-0342
Simcoe	61 Robinson Street	426-3416
Windsor	656 Ouellette Avenue	254-5141

QUEBEC

Montreal	620 St. James Street	288-3151
Quebec	1195 St. Jean Street	525-7105

NEW BRUNSWICK

Fredericton	123 York Street	475-6661
Moncton	796 Main Street	855-1880
Saint John	63 Prince William Street	657-3551

NOVA SCOTIA

Halifax	Lord Nelson Hotel	423-8383
Dartmouth	48 Queen Street	466-7634

PRINCE EDWARD ISLAND

Charlottetown	146 Richmond Street	894-5511
Summerside	5 Summer Street	436-2169

UNITED KINGDOM

London	7 Union Court Old Broad Street, E.C. 2	588-2513

UNITED STATES AFFILIATE

RICHARDSON SECURITIES, INC.

New York	14 Wall Street, New York 10005	349-2850
Chicago	141 West Jackson Blvd., Illinois 60604	427-6027

CAPITAL

BUILDING INDUSTRIES LIMITED

INTERIM REPORT

FOR SIX MONTHS ENDING

JUNE 30TH, 1968

REPORT TO SHAREHOLDERS

On behalf of your Board of Directors, I am pleased to report on a very gratifying and profitable six month period of your Company's operations.

Management's commitment to be expansion and profit oriented, is reflected in the Consolidated Balance Sheet and report on earnings for the six month period ended June 30, 1968.

Inventories of non-revenue-producing assets, are being sold on a profitable basis, reducing certain overhead and at the same time producing cash that can be utilized in more profitable fields.

Operating costs have been reduced wherever possible in all divisions, resulting in greater profitability.

The finalizing of the purchase of Frontier Acceptance is an example of your Company's expansion policy by way of acquisitions. Frontier strengthens management, financial resources and earning power.

The purchase of J-L Vitamins and Cosmetics Limited, when completed, will bring further strength to the Company's franchising concept, along with management and earning power.

EARNINGS

Net profit, after deducting preferred dividends of $6,148, was $260,041 or $.08 per share compared with $.02 per share in 1967. This was on a pooling-of-interest basis with Frontier.

FINANCIAL POSITION

As shown on the Unaudited Consolidated Pro-Forma Balance Sheet, your Company's Shareholders' Equity has increased by slightly over $3,300,000 and there is a positive bank cash position of $114,800. The proceeds of the $1,250,000, 7½% Convertible Subordinated Debentures have been received, placing the Company in a very strong financial position for its planned expansion.

OPERATIONS

The following is a brief report on all operating divisions.

CONSTRUCTION DIVISION

A steady pace of single and multiple family units is being maintained but single family units are now of the semi-custom type catering to the middle and higher income market.

Average gross per house is substantially improved over previous years and the operation continues to be profitable.

Your Company expects to meet its projection of building and selling 100 homes during 1968, as well as completing the second stage of a town house development in Amherstburg, Ontario.

Inventory carry-over at year end is expected to be minimal due to a good demand for the product of your Company in the Windsor area.

The number of housing starts is down from previous years in keeping with the Company's new policy of building semi-custom, higher-priced homes.

BUSINESS DEVELOPMENT DIVISION

This division has been active in disposing of non-revenue-producing assets, particularly land which in the opinion of management could not be utilized in development during the next two years.

The second stage of the Amherstburg town house development has now been turned over to the Construction Division for completion.

Several parcels of land have been serviced and sold to other builders on a profitable basis.

The Ontario Housing Corporation project in Windsor has been delayed due to a site servicing difficulty which is expected to be resolved shortly, allowing the project to proceed.

An office building development in downtown London has also been temporarily held up due to a delay in obtaining land possession and is now expected to commence in September of 1968.

RED BARN DIVISION

Sales for the first half are well ahead of projections with stores erected before 1968 showing overall increases of 15%.

New stores opened in Oshawa, Ottawa and Hamilton have been enthusiastically received by the public and sales in these units have also exceeded projections.

Management projected a total of 10 units during 1968 and this target is now attainable with all sites acquired and further openings planned for Ottawa, Hamilton, London, Windsor, Kingston and Waterloo by year end.

Real estate activity for this division is now being directed toward 1969 requirements.

Franchise applications exceed the number of units for which sites have been purchased.

MANUFACTURING DIVISION — ESSEX CABINET MAKERS, OTTAWA

Production for the first six months of 1968, while slightly below the same period for 1967 will increase substantially during the second half. Firm orders on hand now total in excess of $600,000 which exceeds the total production for last year.

These orders will be produced during the last six months of 1968 and the first three months of 1969.

FRONTIER ACCEPTANCE CORPORATION LIMITED

The acquisition of Frontier has now been finalized as mentioned in the statement of earnings.

The addition of Frontier's earnings and management strength to the Capital family of companies is welcomed by management and is expected to produce additional benefits as the Capital expansion program is developed.

OUTLOOK

As previously stated, your Company is in a strong financial position. Our 1968 program for all divisions appears to be readily attainable and the management team is well co-ordinated to accept further expansion challenges and the integration of additional selected acquisitions. The balance of 1968 looks very promising indeed.

Respectfully submitted on behalf of the Board of Directors.

D. H. Swift
President

CAPITAL BUILDING INDUSTRIES LIMITED
UNAUDITED CONSOLIDATED BALANCE SHEET

ASSETS	June 30, 1968 Pro-Forma (See Notes)	Actual	
		June 30, 1968	June 30, 1967
Current			
Cash	$ 114,800		
Accounts receivable	355,885	$ 355,885	$ 303,593
Mortgage draws receivable	110,978	110,978	229,053
Real estate inventory	626,253	626,253	1,038,858
Land & improvements not yet utilized in construction — at lower of cost or net realizable value	1,237,424	1,237,424	1,448,122
Inventory of millwork materials — at lower of cost or net realizable value	56,336	56,336	56,650
Sundry assets and prepaid expenses	447,045	447,045	518,387
	$2,948,721	$2,833,921	$3,594,663
Investments			
Commercial land and apartment sites	$1,990,547	$1,990,547	$ 114,313
Mortgages and notes receivable — non-current portion	345,242	345,242	336,639
Equity in and advances to affiliated companies	182,296	182,296	177,078
Investment in unconsolidated finance subsidiary — at equity in net assets	1,483,670		
	$4,001,755	$2,518,085	$ 628,030
Fixed			
Land, buildings, equipment and leasehold improvements — at cost	$1,334,686	$1,334,686	$ 160,512
Less accumulated depreciation and amortization	213,420	213,420	66,674
	$1,121,266	$1,121,266	$ 93,838
Other			
Organization, financing expenses and deferred charges, less accumulated amortization	$ 186,212	$ 136,212	$ 88,321
Cost of Red Barn franchise and excess of cost of shares of a subsidiary over equity acquired therein	960,437	960,437	
	$1,146,649	$1,096,649	$ 88,321
	$9,218,391	$7,569,921	$4,404,852

LIABILITIES AND SHAREHOLDERS' EQUITY	June 30, 1968 Pro-Forma (See Notes)	Actual June 30, 1968	Actual June 30, 1967 (Note 5)
Current			
Bank indebtedness — partially secured		$1,085,200	$ 920,209
Accounts payable and accrued liabilities	$ 555,957	555,957	498,312
Income taxes payable	(5,218)	(5,218)	19,142
Mortgages payable and balances owing on agreements of sale	205,827	205,827	672,322
Current portion of long term debt	119,402	119,402	105,000
	$ 875,968	$1,961,168	$2,214,985
Long-Term — Non-Current Portion			
Mortgages and other secured debt	$1,620,894	$1,620,894	$ 35,976
Secured Income Debentures — due 1978	835,621	835,621	
6¼% Convertible Sinking Fund Debenture Series A — due 1977 (Note 3)		583,500	900,000
7½% Convertible Subordinated Debentures due 1978 (Note 2)	1,250,000		
	$3,706,515	$3,040,015	$ 935,976
Shareholders' Equity			
Capital Stock:			
Authorized — 5,000,000 shares without par value			
Issued — June 30, 1968;			
Pro Forma — 3,447,043 shares (Notes 1 & 3)	$4,931,079		
Actual — 2,576,590 shares		$3,450,366	
June 30, 1967; 1,385,500 shares			$2,349,054
Deficit	(295,171)	(881,628)	(1,095,163)
	$4,635,908	$2,568,738	$1,253,891
	$9,218,391	$7,569,921	$4,404,852

CAPITAL BUILDING INDUSTRIES LIMITED
UNAUDITED CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Six Months Ended June 30		
	1968 Pro-Forma (See Notes)	1968 Actual	(Note 5) 1967 Actual
Funds were obtained from:			
Net earnings for the period	$ 260,041	$ 260,041	$ 48,234
Add charges to earnings not requiring cash expenditures:			
Depreciation	28,400	28,400	6,179
Amortization of financing expense	4,028	4,028	4,028
	$ 292,469	$ 292,469	$ 58,441
Less net earnings of unconsolidated finance subsidiary	67,419	67,419	76,667
Total funds obtained from earnings (deficit)	$ 225,050	$ 225,050	($ 18,226)
Mortgages & notes receivable, properties & other investments (net)	41,776	41,776	66,727
Increase in long-term debt after deducting cost of issuance	1,184,806		
Sales of common shares under employee stock option	2,312	2,312	
Mortgages payable	153,687	153,687	
Sale of fixed assets (net of additions)			35,874
Total funds obtained	$1,607,631	$ 422,825	$ 84,375
Funds were applied to:			
Acquisition of fixed assets (net of sales)	$ 592,602	$ 592,602	
Reduction of long-term debt (net)		15,194	$ 101,080
Loss on disposal of revalued equipment			46,060
Other	12,495	12,495	1,350
Total funds applied	$ 605,097	$ 620,291	$ 148,490
Increase (decrease) in working capital	$1,002,534	($ 197,466)	($ 64,115)

CAPITAL BUILDING INDUSTRIES LIMITED
UNAUDITED CONSOLIDATED STATEMENT OF EARNINGS

	Six Months Ended June 30,	
	1968	(Note 5) 1967
Sales	$1,606,431	$2,812,024
Cost of sales	1,335,198	2,555,548
	$ 271,233	$ 256,476
Add:		
Other income, including franchise operations	430,666	31,609
Net earnings of unconsolidated finance subsidiary	67,419	76,667
	$ 769,318	$ 364,752
Deduct:		
Selling, general and administrative expenses	$ 396,446	$ 275,061
Interest on long-term debt	86,303	31,250
Depreciation	28,400	6,179
Amortization of financing expense	4,028	4,028
	$ 515,177	$ 316,518
	$ 254,141	$ 48,234
Gain on purchase and cancellation of Company debentures	5,900	—
NET EARNINGS	$ 260,041	$ 48,234
Net earnings per common share	$.08	$.02

NOTES TO UNAUDITED CONSOLIDATED BALANCE SHEET, STATEMENT OF SOURCE AND APPLICATION OF FUNDS, AND STATEMENT OF EARNINGS

The attached statements at June 30, 1968 have been prepared based on the following:

1. The acquisition in July, 1968 of all of the outstanding preference and common shares of Frontier Acceptance Corporation Limited and the accounting for the acquisition on a pooling-of-interest basis.
2. The issuance for cash on July 26, 1968 of $1,250,000, 7½% Convertible Subordinated Debentures of Capital Building Industries Limited and the application of part of the proceeds to retire bank indebtedness.
3. The conversion of $583,500, 6¼% Convertible Sinking Fund Debentures Series A, which have been called for redemption, into common shares.
4. Warrants and convertible securities outstanding grant to the holders thereof rights to purchase or convert into a total of 832,795 common shares at prices from $2.50 to $3.00 a share, which shares are not included in the pro-forma outstanding shares.
5. The statement for the six months ended June 30, 1967 has been restated to include the earnings of Frontier Acceptance Corporation Limited, which was acquired in July, 1968 on a pooling-of-interest basis.